

IN THE MATTER OF the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47, as amended, (the “Act”); and

IN THE MATTER OF an application by Newfoundland Power Inc. (“Newfoundland Power”) to establish customer electricity rates for 2025 and 2026 (the “Application”).

**Requests for Information by
Newfoundland Power Inc.**

To: Dr. Laurence D. Booth

NP-CA-001 to NP-CA-036

May 8, 2024

Requests for Information

NP-CA-001

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 2, lines 13-15 and lines 22-24.

“My main recommendation is that if the Board continues to assess NP to have average business risk for a Canadian utility, then the Board regulate it as such and allow an average common equity ratio of 40%.”

“Currently I am recommending a 7.70% allowed ROE, which figure is slightly higher than my previous recommendations.”

Please provide a table containing Dr. Booth’s recommended ROE and Capital Structure for Newfoundland Power in each of his prior testimonies and the current testimony, and the average 30-year Canadian Government Bond in the year his testimony was filed.

NP-CA-002

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 3, lines 7-9.

“My recommendation is that the Board set what it regards as a fair and reasonable ROE, and any excess earned above that amount be shared 50:50 with ratepayers. Otherwise, it is difficult to understand what the Board considers to be a fair and reasonable allowed ROE.”

- a) Is Dr. Booth recommending that the Board place a hard cap on NP’s authorized ROE such that any earnings above the authorized ROE be shared evenly with customers?
- b) Please explain what an earnings sharing mechanism has to do with understanding what the Board considers a fair and reasonable allowed ROE.
- c) Under Dr. Booth’s proposal, would the earnings sharing mechanism be symmetrical, that is, if NP earns less than the authorized ROE, would the Company be allowed to adjust rates upward to recover the full authorized ROE?

NP-CA-003

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 4, lines 2-6.

“I would regard both of these as within the range of a fair and reasonable ROE, with the latter almost the same as NP’s allowed ROE. If the Board is unwilling to impose an automatic ROE adjustment formula in the current GRA, I would suggest that at the very least one be on the list of issues that the Board wants evidence on for the next GRA.”

Is Dr. Booth recommending that the Board implement an automatic adjustment mechanism in the current GRA proceeding?

NP-CA-004

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 6, lines 4-7.

“Because the legal standard for a fair rate of return in Canada stemmed from changed conditions in the money market, where we would now understand the money market to mean the capital market. Also, conventional practice is to base the fair ROE on the forecast long term Canada (LTC) bond yield.”

Based on the legal standard for a fair return in Canada, please explain why Dr. Booth recommends a reduction in NP’s authorized ROE of 80 basis points when the actual 30-year LTC bond yield increased from 2.05% in March 2015 to 3.50% in August 2023, and the actual yield on the A-rated Canadian utility bond increased from 3.46% in March 2015 to 4.98% in August 2023, as shown in the response to CA-NP-183?

NP-CA-005

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 24, lines 2-4

“I am, therefore, confident that the LTC yield will increase over the next 18 months unless something dramatic happens, for example in Ukraine.”

If Dr. Booth expects higher LTC bond yields in the next 18 months (e.g., he uses a risk free rate of 3.80% plus a credit risk adjustment of 0.23%) as compared to the current average LTC yield of 3.40% in March 2024, why does he recommend a reduction of 80 basis points in NP’s authorized ROE?

NP-CA-006 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 26, line 5.

“RBC’s latest forecast (March 2024) is below.”

Please provide a copy of the referenced RBC report.

NP-CA-007 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 28, lines 2-3.

“As the previous graph shows, the recent unemployment rate is 5.8%, and has increased from the 5% low at the start of 2023.”

- a) How does the current unemployment rate in NL compare to Canada overall?
- b) Where does Newfoundland and Labrador rank among Canadian provinces in terms of its unemployment rate?
- c) Has Dr. Booth considered the economic outlook and demographic trends in NL as part of his ROE analysis and recommendation for NP? If so, please explain what data were considered.

NP-CA-008 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 31, lines 3-4.

“The graph below shows the trend in actual borrowing costs since 2000 for A and BBB rated issuers.”

Please confirm that the graph shows that current average bond yields for A and BBB rated issuers are considerably higher than in 2016, 2018, or 2021.

NP-CA-009 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 31, lines 6-8.

“As the graph shows, A bond yields are now approximately where they were in 2010 before the Euro crisis, the U.S. government downgrade, and the massive bond buying by central banks that started in 2011H2 and drove down bond yields.”

Please confirm that Newfoundland Power’s authorized ROE in 2010 was 9.00%, as shown on page 25 of the Board’s Order No. P.U. 43(2009).

NP-CA-010

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 37, lines 10-12.

“The premier model that incorporates the risk return trade-off between Government of Canada default free securities and risky securities is the Capital Asset Pricing Model or CAPM. This is the model used by most boards in Canada, including this one in past decisions.”

Please indicate whether the regulator relied exclusively on the CAPM in setting the authorized ROE in the decisions listed below:

- a) Alberta Utilities Commission – October 2023 – Setting the Generic ROE – 2024 and beyond.
- b) BCUC – September 2023 – FortisBC Energy Inc. and FortisBC.
- c) Nova Scotia Utilities and Review Board – February 2022 - Nova Scotia Power.

NP-CA-011

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 37, lines 25-26.

“Where the CAPM gets controversial is in the beta coefficient since risk is constantly changing, as are beta coefficients.”

- a) Is Dr. Booth aware that beta coefficients for electric and gas utilities have increased substantially since January 2020 as reported by Bloomberg and Value Line, both of which are well-regarded sources of financial data used by investors?
- b) If Dr. Booth believes that risk is constantly changing, please explain why he does not rely on current market data on beta coefficients for a group of companies comparable to NP in terms of risk?
- c) Why is it more reasonable to rely on historical beta coefficients for utilities over the past 60 years than on current market data, if the Northwestern decision requires the use of data that reflects change in the money market (i.e., the capital market)?

NP-CA-012

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 42, lines 1-2.

“In Appendix B, I estimate the market risk premium of common equities over long-term Canada bonds at 4.87% and the equivalent in the U.S. at 6.58%.”

- a) Please explain how Dr. Booth computed the market risk premiums for Canada and the U.S.
- b) Please provide the data underlying the calculation of the historical market risk premium for each country.

NP-CA-013

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 54, lines 16-19.

“This is currently not a significant problem since long run forecast inflation is still low, but part of the reason the DCF fell out of favour was that it was giving bad signals when applied mechanically in the 1990s, when there was a structural break in the forecast inflation rate.”

- a) Please explain what Dr. Booth means by “a structural break” in the forecast inflation rate.
- b) Please provide any evidence that utility regulators in Canada stopped using the DCF model during the 1990s for this reason. Please cite specific decisions where this was stated.
- c) Please indicate whether Dr. Booth believes that the DCF model remains “out of favour” with North American utility regulators, and if so, provide the basis for that belief.

NP-CA-014

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 69, lines 8-11.

“However, we can get some insights from the data in my Appendix D, Schedule 13 repeated below, where I estimate the median DCF cost using analyst forecast data at 8.84% for a sample of 13 electric utilities in the U.S., most of which at one time or another have been in ‘comparable samples’ for Canadian electric utilities.”

- a) Please explain why Dr. Booth includes a forecast EPS growth rate of -12.34% for OGE Energy and a sustainable growth rate of -9.07% for Eversource Energy.
- b) Does the constant growth DCF model allow for the use of negative growth rates, or is this inconsistent with the assumptions underlying the model?
- c) Please explain how the values in the column labeled “ROE” are calculated. Is this value based on historical or projected data?

NP-CA-015

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 75, lines 23-26.

“Third, although the principles of regulation are largely the same between the U.S. and Canada, as is widely recognized the implementation is different, as was demonstrated in the 2000s with the U.S. regulation of their banks and their telecom companies.”

- a) Please explain by whom it is “widely recognized” that the implementation of the principles of regulation is different between the U.S. and Canada, and provide the basis for this assertion.
- b) Please provide evidence that this statement applies to regulated electric utilities.

NP-CA-016 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 78, lines 22-24.

“In my judgment, NP is lower risk than any sample of U.S. UHCs regardless of the screens used to create a “low risk” sample, and even these U.S. UHCs have an equity cost significantly less than 9.19%.”

- a) Has Dr. Booth compared the risk of Newfoundland Power to that of a sample of U.S. UHCs?
- b) If yes, please provide a copy of that analysis.
- c) If no, what is the basis for the assertion that NP is lower risk?

NP-CA-017 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 81, line 14.

“I would add that Moody’s has changed its view of U.S. regulatory protection.”

- a) Please confirm that the referenced Moody’s report dated September 23, 2013, indicates that this report supersedes the previous report published in August 2009.
- b) If confirmed, then why does Dr. Booth continue to quote the 2005 and 2009 Moody’s reports on pages 80-81 of his report?

NP-CA-018 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 83, lines 10-12.

“Moreover, unlike the U.S., this is generally not a significant concern in Canada as most regulated operating utilities require approval from the regulator to issue debt and often issue secured debt.”

- a) Is it Dr. Booth’s testimony that operating utilities in Canada generally require approval for debt issuances, while those in the U.S. do not? If yes, please provide supporting evidence for this statement regarding U.S. utilities.
- b) Is it Dr. Booth’s testimony that operating utilities in Canada “often issue secured debt”? Please provide a list of secured debt issuances for Canadian investor owned electric utilities over the past five years.

NP-CA-019

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 85, lines 10-12.

“However, I am not aware of any decision that has explicitly taken estimates from U.S. companies or the U.S. capital market and said that they are appropriate for use in Canada without any adjustment.”

Please confirm whether Dr. Booth is aware of decisions from the BCUC (September 2023) and the AUC (October 2023) in which the regulator relied on a North American proxy group that included results for both Canadian and U.S. companies, without making any adjustment for U.S. data.

NP-CA-020

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 88, lines 2-3.

“If Mr. Coyne’s reported authorised (allowed) returns are correct: U.S. allowed ROEs have been consistently higher than in Canada by about 1.5%.”

- a) The referenced chart from Mr. Coyne’s 2009 testimony before the AUC covers the period from 1994-2008. Has Dr. Booth updated this analysis for decisions since 2008?
- b) Would Dr. Booth agree that the gap between authorized ROEs in Canada and the U.S. has narrowed since 2009 to approximately 50-60 basis points on average?

NP-CA-021

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 102, lines 12-14.

“What is more, six of the referenced U.S. utilities derive a large amount of their power from nuclear generation.”

Please provide the basis for this statement, and what Dr. Booth considers “a large amount”, and the data he relies upon to make this determination.

NP-CA-022 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 116, line 13.

“Why don’t you use the AUC’s allowed ROE of 9.0%?”

Please confirm that the AUC’s authorized ROE for electric and gas utilities in 2024 is 9.28%.

NP-CA-023 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, Appendix C, page 12, lines 23-26.

“However, it is well known that betas are biased when estimated over high frequencies such as using weekly data. The reason for this is that many stocks do not trade that actively, so their prices are a bit ‘stale’ and do not reflect recent events.”

Please provide evidence that the companies in Concentric’s North American Electric proxy group, U.S. Electric proxy group, and Canadian proxy group do not trade actively.

NP-CA-024 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, Appendix C.

Please provide the data used to create Schedules 5, 9 and 12 of Appendix C in Excel executable format with all formulas intact.

NP-CA-025 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, Appendix D, page 17, lines 19-20.

“To illustrate the problem in using earnings rather than dividends I used the S&P Analyst Handbook for the S&P500 index updated to 2023.”

Please provide a copy of the referenced document from S&P.

NP-CA-026 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, Appendix E, page 18, lines 14-16.

“the market equity cost and utility equity cost both fall as interest rates fall, which is that all non-derivative securities are substitutes, that is, they move together but not necessarily equally.”

Would the same be true if the beta coefficients for utilities, which are calculated relative to the broad market, increased? In other words, would a ROE formula produce a return that satisfies the fair return standard if the return derived from the formula decreased as interest rates decreased, even though utility risk, as measured by beta, had increased? Please explain.

NP-CA-027 Please describe whether the Board’s ongoing Reliability and Resource Adequacy Study factored into Dr. Booth’s assessment of Newfoundland Power’s business risk. If so, how?

NP-CA-028 In determining Newfoundland Power’s business risk as it relates to the Muskrat Falls Project, did Dr. Booth consider both the cost and reliability challenges associated with this project? If so, can Dr. Booth please describe the reliability challenges considered in the assessment of Newfoundland Power’s business risk?

NP-CA-029 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 1, line 22 and page 2 lines 1-2.

“In my judgment, we have a more favourable economic environment than at the time of the three other hearings as is shown by the stock market recently hitting new highs.”

- a) Newfoundland Power operates exclusively on the island portion of Newfoundland and Labrador. What economic indicators specific to Newfoundland and Labrador did Dr. Booth consider in the assessment of Newfoundland Power’s business risk?
- b) How do the specific economic indicators identified in part a) compare to the rest of Canada?

NP-CA-030 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 96, line 8 (graph).

Given Dr. Booth's position that risk is forward looking, please explain the relevance of Newfoundland Power's historical achieved ROE in assessing its business risk.

NP-CA-031 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 97, lines 13-16.

"There seems to be a consistent theme to expert evidence put forward by most companies and their expert witnesses. This is that bad things could happen to the utility, even though so far they never have."

Does Dr. Booth consider an equity investment in Newfoundland Power to be a risk-free investment? Please explain.

NP-CA-032 Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 98, lines 13-15.

"To the extent that NP is on top of its forecasting and risk assessment, the impact of customer losses is not material..."

Page 98, lines 18-20.

"If supply or demand changes significantly, then rates may have to rise, and the utility may not be able to recover the cost of its approved capital assets. This is often referred to as the death spiral."

- a) Please reconcile these two statements.
- b) In addition to supply and demand changes, could the impact of Muskrat Falls Project costs on customer rates also impede Newfoundland Power's ability to recover prudently incurred costs? In Dr. Booth's opinion, is this a risk that equity investors might consider?

NP-CA-033

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 100, lines 2-4.

“... I judge electricity to be competitive in Newfoundland and Labrador, and that it would require very large increases in power costs from Hydro before people even think of switching to alternative fuels.”

- a) Will increasing electricity rates encourage customers to conserve electricity where possible? Please explain.
- b) Please describe how concerns regarding the reliability of the Labrador-Island Link and the adequacy of generation resources on the Island of Newfoundland were factored into Dr. Booth’s assessment of Newfoundland Power's business risk.
- c) As part of his assessment, did Dr. Booth consider the impact of costs associated with constructing permanent back-up generation for the Labrador-Island Link or the construction of other sources of generation on the Island of Newfoundland, such as Bay d’Espoir Unit 8?

NP-CA-034

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 100, lines 7-10.

“Finally, the Board and the Government of Newfoundland (sic) and Labrador have tools to manage any rate shock should the cost of power from Hydro increase significantly, such as changing the depreciation rate, reducing the +/- 0.40% band around the allowed ROE, and changing to a more efficient capital structure.”

- a) Please detail the supporting analysis completed by Dr. Booth that compares the scope of rate increases stemming from the Muskrat Falls Project with the rate mitigating effects of changes in the depreciation rate, narrowing the ROE band, and reducing Newfoundland Power’s equity thickness by 5%.
- b) What is Dr. Booth’s understanding of the ability of the Government of Newfoundland to change the recovery period of costs associated with the Muskrat Falls Project and whether agreements, such as the Muskrat Falls Power Purchase Agreement, place limitations on any such ability? Please explain.

- c) In Dr. Booth's opinion, is there a risk that cost recovery associated with the Muskrat Falls Project could place increased pressure on customers' ability to pay?
- d) In Dr. Booth's opinion, is manipulating Newfoundland Power's capital structure in order to mitigate costs associated with the Muskrat Falls Project consistent with the fair return standard and the stand-alone principle?

NP-CA-035

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 113, lines 9-11.

"My recommendation is to replace a 5% common share component with preferred shares as an interim solution, and replace them with debt if there is in fact rate shock from higher electricity prices."

- a) Please detail how credit rating agencies treat the issuance of preferred shares as compared to debt in their calculation of credit metrics.
- b) Please provide examples of utilities of a comparable size to Newfoundland Power who have financed their capital investments through the issuance of preferred shares.
- c) Is Dr. Booth aware of this approach having been utilized elsewhere in Canada?

NP-CA-036

Reference: *Fair Return and Capital Structure for Newfoundland Power (NP)*, Evidence of Laurence D. Booth, April 2024, page 113, lines 9-13.

- a) Please state whether Dr. Booth's proposal that *the preferred share component can be deemed at the cost of Fortis' preferred shares* would be considered a short term, interim change to a longstanding capital structure for Newfoundland Power.
- b) Please explain why Dr. Booth believes that Fortis Inc.'s preferred shares are relevant to a stand-alone operating subsidiary such as Newfoundland Power.

RESPECTFULLY SUBMITTED at St. John's, Newfoundland and Labrador, this 8th day of May, 2024.

A handwritten signature in black ink, appearing to read "Andrew Hollett". The signature is fluid and cursive, with a period at the end.

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